

## Message Text

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INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L OSLO 3212

DEPARTMENT PASS EXIMBANK

BRUSSELS FOR USEC

PARIS FOR USOECD

E.O. 11652: GDS

TAGS: EWWT, EFIN, EIND, UK, NO

SUBJECT: NORWEGIAN SHIPPING GUARANTEES

1. SUMMARY: THE NORWEGIAN GUARANTEE INSTITUTE FOR SHIPS HAS PROPOSED TO THE UK'S HAMBRO'S BANK THAT IT FOREGO INTEREST AND ACCEPT A LOWER REPAYMENT PRIORITY ON ITS LOANS TO NORWAY'S REKSTEN SHIPPING INTERESTS. NORWAY'S OWN AKER GROUP HAS BEEN ASKED TO AGREE TO SIMILAR TERMS FOR ITS LOANS TO REKSTEN. HAMBRO'S, AKER AND NORWEGIAN SHIPOWNERS ARE REPORTEDLY BADLY SHAKEN BY WHAT ARE SEEN AS DRACONIAN PROPOSALS AND NEGOTIATIONS BETWEEN HAMBRO'S AND THE GUARANTEE INSTITUTE ARE BEING FOLLOWED CLOSELY. END SUMMARY.

2. FOLLOWING THE GON'S CONCLUDING THAT THE SHIPPING CRISIS WOULD LAST A LOT LONGER THAN INITIALLY EXPECTED AND ITS DECISION NOT TO INCREASE SUBSTANTIALLY STATE SUPPORT FOR THE  
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GUARANTEE INSTITUTE (REFAIR), AN INTERDEPARTMENTAL TASK FORCE WAS INSTRUCTED TO BEGIN NEGOTIATING PROCEDURES FOR THE PERIOD FOLLOWING THE EXPIRATION OF GUARANTEES NOW IN FORCE. GUARANTEES FOR HAMBRO'S AND AKER'S LOANS TO REKSTEN EXPIRE AT THE END OF 1979 AND RECENT INQUIRIES BY HAMBRO'S ABOUT EXTENDING THE GUARANTEE PERIOD GAVE THE CONCERNED AGENCIES A FIRST OPPORTUNITY TO

BEGIN CARRYING OUR THEIR MANDATE.

3. AS THE GON BELIEVES THAT REPAYMENTS OF LOANS BY REKSTEN BEGINNING IN 1980 WILL NOT BE POSSIBLE, AND AS THE PRESENT MARKET WORTH OF THEIR SHIPS IS WELL BELOW THE VALUE OF THE LOANS, THE GUARANTEE INSTITUTE PROPOSED TO HAMBRO AND AKER THAT THE GUARANTEES BE CONTINUED BUT AT A REDUCED LEVEL TO REFLECT CURRENT MARKET PRICES. THE GUARANTEE INSTITUTE WOULD THEN PAY INTEREST ON THIS REDUCED AMOUNT FROM THE PRESENT THROUGH THE MID-1980'S AND AT THE END OF THAT TIME HAMBRO'S AND AKER WOULD FOREGO REPAYMENT OF PRINCIPAL ABOVE THE AMOUNT OF THE REDUCED GUARANTEES UNTIL THE GUARANTEE INSTITUTE HAS BEEN REPAID ITS INTEREST PAYMENTS. SIMILARLY, ONCE AKER AND HAMBRO'S HAVE BEEN REPAID PRINCIPAL UP TO THE GUARANTEE LEVEL UNDER THE TERMS PRESENTLY IN EFFECT, FURTHER REPAYMENT WOULD BE FOREGONE UNTIL THE GUARANTEE INSTITUTE HAD COLLECTED THOSE INTEREST PAYMENTS DISBURSED UP TO NOW. THE AMOUNT ON WHICH INTEREST WILL BE FOREGONE AND FOR WHICH A LOWER REPAYMENT PRIORITY IS TO BE ACCEPTED IS REPORTEDLY ABOUT 500 MILLION KRONER (\$94 MILLION) IN THE CASE OF HAMBRO'S; 200 MILLION KRONER (\$38 MILLION) IN AKER'S CASE.

4. THE GUARANTEE INSTITUTE HOLDS THAT ITS ORIGINAL UNDERSTANDING WITH HAMBRO'S AND AKER PROVIDED THAT ITS GUARANTEE COULD BE RENEGOTIATED SHOULD UNDERLYING CONDITIONS CHANGE. AS THE CONFIDENTIAL

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SHIPPING CRISIS NOW CLEARLY WILL LAST MUCH LONGER THAN WAS ANTICIPATED TWO YEARS AGO (AND THE VALUE OF REKSTEN TANKERS HAS DROPPED TO ABOUT A THIRD OF THEIR 1976 WORTH) RENEGOTIATION APPEARS JUSTIFIED AND THE GON DOES NOT SEEM GREATLY DISTURBED BY HAMBRO'S RECENT PUBLIC THREAT TO SUE THE KINGDOM.

5. GON NEGOTIATIONS FORESEE TWO POSSIBLE OUTCOMES TO THE DISCUSSIONS. HAMBRO'S (AND AKER) CAN INSIST ON A REKSTEN BANKRUPTCY AND TAKE THE SHIPS; IN WHICH CASE THE GUARANTEE INSTITUTE WILL PAY OUT ON ITS PRESENT GUARANTEES AND AS FAR AS THE GON IS CONCERNED THE MATTER IS FINISHED. OR HAMBRO AND AKER CAN AGREE TO ACCEPT INTEREST ON A MUCH REDUCED AMOUNT FROM THE PRESENT TO THE MID-80'S WITH EVENTUAL REPAYMENT AS OUTLINED (ASSUMING REKSTEN BY THEN IS A PROFIT MAKING CONCERN). IN THE LATTER CASE THE GUARANTEE INSTITUTE WOULD CONCEIVABLY HAVE TO ASK FOR SOME ADDITIONAL FUNDS FROM THE STATE. SOME GON OFFICIALS PRIVATELY SAY THEY WOULD PREFER A BANKRUPTCY NOW AS THE MORE EFFICIENT SOLUTION TO THE PROBLEM.

6. COMMENT: OUR COMMERCE MINISTRY SOURCES BELIEVE BOTH AKER AND HAMBRO'S BANK WOULD BE FAIRLY HARD HIT REGARDLESS

OF THE OUTCOME OF THE NEGOTIATIONS. THEY FEEL HAMBRO'S  
WOULD BE PARTICULARLY AFFECTED IF THE MARKET  
GENERALLY CONCLUDES THAT EVENTS BASICALLY CALL INTO QUESTION  
THE JUDGEMENT OF HAMBRO'S MANAGEMENT. IN THE CASE OF AKER,  
SUBSTANTIAL RETRENCHMENT IN SHIPBUILDING ACTIVITIES IS  
CONTEMPLATED ANYWAY AND THE GON SEEMS TO HOPE THAT ITS  
MOVES WILL BE READ BY DOMESTIC INDUSTRY AND BY THE INTER-  
NATIONAL FINANCIAL COMMUNITY AS EVIDENCE OF SERIOUSNESS  
OF INTENT TO FOSTER OVERDUE ECONOMIC RESTRUCTURING.  
COMMENTING ON THE DISPUTE IN THE LOCAL PRESS, COMMERCE  
MINISTER BAKKE SOUNDED UNCHARACTERISTICALLY BUSINESSLIKE  
(TOUGH NOT MUCH LIKE NORWEGIAN BUSINESSMEN THESE DAYS)  
WHEN HE SAID, QUOTE THE STATE CANNOT -- NOW OR IN THE  
FUTURE -- UNDERTAKE THE RESPONSIBILITY OF COVERING DEBTS  
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THAT PRIVATE NORWEGIAN COMPANIES MIGHT HAVE TO FOREIGN  
COMPANIES AND FINANCIAL INSTITUTIONS. UNQUOTE.  
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## Message Attributes

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